

BAY COUNTY HOUSING DEPARTMENT

Financial Statements

December 31, 2003

Audited by

JOHN C. DIPIERO, P.C.

Certified Public Accountant

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature			Date	

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**Bay County Housing Commission
798 North Pine Road
Essexville, Michigan 48706**

Management Discussion & Analysis

This discussion and analysis of the Bay County Housing Commission's financial performance should be read in conjunction with the auditor's opinion letter and the financial statements.

Entity-Wide Statements

The combined financial statements show, in one place, all the Commission's operations. Our statements are prepared on the accrual basis of accounting, which is similar to that used by most businesses. Under this method, all revenues and expenses connected with the fiscal year are taken into account even if the cash involved has not actually been received or paid. The Financial Data Schedule included within the audit report contains all the programs of the Commission.

Fund Statements

The Financial Data Schedule reports the Commission's operations in more detail. The commission reports all its activities using Proprietary Fund types. These funds are used to show activities that operate more like commercial enterprises. The Financial Data Schedule is organized by the government Catalogue of Financial Domestic Assistance (CFDA) numbers.

Entity-Wide Financial Highlights

The Commission was awarded the following Federal Assistance:

	<u>Year 2003</u>	<u>Year 2002</u>
Operating Subsidies	\$ 181,903	\$ 182,720
Capital Projects Funds	161,452	230,669

The Commission's current ratio increased from 2.57 to 3.75 denoting an improved liquidity position. Fixed Assets, Total Assets, and Total Equity all remained consistent with the previous year. The following represents the aforementioned positions:

	<u>Year 2003</u>	<u>Year 2002</u>
Current Assets	\$ 338,460	\$ 390,112
Fixed Assets, net of Depreciation	2,849,819	2,805,257
Total Assets	3,188,279	3,196,133
Current Liabilities	90,155	151,980
Total Equity	3,095,447	3,044,153

The Commission provided the following housing (average occupied units per year):

	<u>Year 2003</u>	<u>Year 2002</u>
Low Income Seniors (including disabled)	93	94

The Bay County Housing Commission approved the 2003 Operating Budget on December 13, 2002, had approved no revisions during the fiscal year, and finished the year with a small surplus from operations.

*John C. DiPiero, P.C.*_____.

Certified Public Accountant

P. O. Box 378
Hemlock, Michigan 48626
Tel / Fax (989) 642-2092

Bay County Housing Department
798 North Pine Road
Essexville, Michigan 48732

Independent Auditor's Report

I have audited the financial statements listed in the Table of Contents of the Bay County Housing Department as of and for the year ended December 31, 2003. These financial statements are the responsibility of the Housing Department's management. My responsibility is to express an opinion on the financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bay County Housing Department as of December 31, 2003, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principals.

In accordance with Government Auditing Standards, I have also issued my report dated June 3, 2004 on my consideration of the Bay County Housing Department's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Required Supplemental Information

The Management's Discussion and Analysis and the required supplemental information are not a required part of the basic financial statements but is supplemental information required by the Governmental Auditing Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, I did not audit the information and express no opinion on it.

Combining Financial Statements

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Financial Data Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the financial statements taken as whole.

Certified Public Accountant

June 3, 2004

December 31, 2003

ASSETS

C-3220

CURRENT ASSETS

Cash	\$	77,382
Accounts Receivable- HUD		67,862
Investments		162,265
Prepaid Expenses		11,014
Interprogram Due From		<u>19,937</u>

Total Current Assets	\$	338,460
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NON CURRENT ASSETS

Land	\$	402,371
Buildings		3,687,825
Furniture, Equipment- Dwelling		180,504
Furniture, Equipment- Administrative		126,732
Leasehold Improvements		399,633
Accumulated Depreciation		<u>(1,947,246)</u>

Total Non Current Assets		<u>2,849,819</u>
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<u>TOTAL ASSETS</u>	\$	<u>3,188,279</u>
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LIABILITIES & EQUITY

C-3220

LIABILITIES:

CURRENT LIABILITIES

Accounts Payable	\$	26,813
Accounts Payable- Other Governments		9,645
Accrued Wages and Payroll Taxes		13,823
Tenants Security Deposit		17,024
Accrued Compensated Absences		2,677
Accrued Liabilities-Other		236
Interprogram- Due to		<u>19,937</u>

Total Current Liabilities \$ 90,155

NON CURRENT LIABILITIES

Accrued Compensated Absences 8,123

Total Liabilities \$ 98,278

NET ASSETS:

Invested in Capital Assets, net of Related Debt	\$	2,849,819
Unrestricted		<u>240,182</u>

Total Net Assets 3,090,001

TOTAL LIABILITIES & EQUITY \$ 3,188,279

The Accompanying Footnotes are an Integral Part of the Financial Statements

OPERATING REVENUES

Tenant Rental Revenue	\$	173,293
HUD Grants		343,355
Interest Income		4,115
Other Income		<u>7,408</u>

Total Operating Revenue \$ 528,171

OPERATING EXPENSES

Administrative	\$	109,368
Tenant Services		6,225
Utility Expenses		76,841
Ordinary Maintenance		120,447
General Expenses		<u>26,410</u>

Total Operating Expenses 339,291

Operating Income (Loss) \$ 188,880

NONOPERATING REVENUES (EXPENSES)

Extraordinary Maintenance	\$	(8,394)
Depreciation Expenses		<u>(134,638)</u>

Total Non Operating (Expenses) \$ (143,032)

Change in Net Assets \$ 45,848

Total Net Assets- Beginning 3,044,153

Total Net Assets- Ending \$ 3,090,001

The Accompanying Footnotes are an Integral Part of the Financial Statements

Business Type Activities

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$ 173,650
Payments to Suppliers	(299,140)
Payments to Employees	(118,088)
HUD Grants	343,355
Other Receipts (Payments)	<u>11,523</u>
Net Cash Provided (Used) by Operating Activities	\$ <u>111,300</u>

CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES

Increase in Investments	\$ (112,231)
Purchases of Capital Assets	<u>(179,200)</u>
Total Cash Flows from Financing Activities	\$ <u>(291,431)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (180,131)
Balance- Beginning of Year	<u>257,513</u>
Balance- End of Year	\$ <u>77,382</u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET
CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Net Profit or (Loss)	\$ 45,848
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation	134,638
Changes in Assets (Increase) Decrease:	
Receivables (Gross)	(46)
Interfund Due From	21,167
Changes in Liabilities Increase (Decrease):	
Accounts Payable	(45,053)
Accounts Payable-Other Governments	(532)
Accrued Compensated Absences	(10,928)
Accrued Liabilities	(14,059)
Security Deposits	1,432
Interfund Due To	<u>(21,167)</u>
Net Cash Provided by Operating Activities	\$ <u>111,300</u>

The Accompanying Notes are an Integral part of the Financial Statements

NOTE 1: Summary of Significant Accounting Policies

Reporting Entity-

Bay County Housing Department, Bay County, Michigan, (Department) was created by Public Act 139 of 1973. The Department signed an Annual Contributions Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD). The ACC requires the Department to provide safe, sanitary and decent housing for qualifying senior and low income families.

The Department consists of the following:

MI 133	Low rent program	100 units
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A component unit is legally separate entity for which the primary government is financially accountable. The criterion of financial accountability are the ability of the primary government to impose its will upon the potential component unit. Based on the above criteria, there are no component units.

These criteria were considered in determining the reporting entity.

Basis of Presentation-

The accounts of the Department are organized by the Catalog of Federal Domestic Awards (CFDA) numbers, in the Financial Data Schedule; each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenditures, or expenses, as appropriate. Department resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Proprietary Funds

Enterprise Funds- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, management control, accountability, or other purposes.

Basis of Accounting-

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary Funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Prior to October 1, 1998, the Department followed a basis of accounting consistent with the cognizant agency, the U. S. Department of Housing and Urban Development, HUD. Those practices differed from Generally Accepted Accounting Principals (GAAP); however, for all fiscal years beginning on or after October 1, 1998, HUD has required adherence to GAAP. Therefore, the current and future financial presentations will follow GAAP and the Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989.

Budgetary data-

Formal budgetary integration is employed as a management control device during the year in proprietary type funds. Budgets for funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) for that fund type. The Department adopts a budget annually, and amends the budgets as it feels necessary in order to maintain financial integrity.

Assets, Liabilities, and Net Assets-

Deposits & Investments

Deposits are stated at cost; the carrying amount of deposits is separately displayed on the balance sheet as cash and cash equivalents; investments are stated at cost which approximates market.

Cash Equivalents

Cash Equivalents represent investments purchased with a three month maturity or less; investments meeting this criteria are reclassified for financial statement purposes as cash.

Fixed Assets

The accounting and reporting treatment applied to the fixed assets are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets.

is charged as an expense against their operations; depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings and Improvements	40 years
Equipment	3-7 years

Compensated Absences

Compensated absences are for unused vacation days, personal leave days, and accumulated compensation time, based on total accumulation of time at current rates of compensation. Financial Accounting Standards Board (FASB) # 43 establishes proper generally accepted accounting principles (GAAP) concerning such accruals. The following criteria must be met:

- 1) Employee's right to compensation is attributable to past performance.
- 2) The right to compensation is vested or accumulates.
- 3) It is probable that the compensation will be paid.
- 4) The amount is reasonably estimable.

The estimated portion of the liability for vested leave benefits attributable to the Department is recorded as an expenditure and liability in each of the respective programs.

Note 2: Cash and Investments.

The composition of cash and investments are as follows:

Cash:

General Fund Checking Accounts	\$ 51,642
Petty Cash & Change Fund	125
Investments, classified as cash equivalents	<u>25,615</u>

Financial Statement Total	<u>\$ 77,382</u>
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Investments:

Money Market Account	\$ 25,615
Certificates of Deposit	162,265
Reclassified as cash equivalents, above	<u>(25,615)</u>

Financial Statement Total	<u>\$ 162,265</u>
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Generally the Department classifies cash and investments with the following risk assumptions:

- 1) Insured or registered in the Department's name.
- 2) Uninsured or unregistered, held by a broker in the Department's name.
- 3) Uninsured or unregistered, held by a broker not in the Department's name.

	Categories				
	1	2	3	Carrying Amount	Market Value
Cash:					
Checking A/C's	\$ 51,642	\$	\$	\$ 51,642	\$ 51,642
Petty Cash	125			125	125
Money Market	<u>25,615</u>			<u>25,615</u>	<u>25,615</u>
Total Cash	<u>\$ 77,382</u>	<u>\$</u>	<u>\$</u>	<u>\$ 77,382</u>	<u>\$ 77,382</u>
Investments:					
C/D's	\$ 162,265	\$	\$	\$ 162,265	\$ 162,265

In addition to the above analysis, the Department has adopted an investment policy as required by P.A. 20 of 1943, as amended by P.A. 196 of 1997; Michigan Compiled Law 129.95.

Note 3: Fixed Assets and Depreciation.

Property and equipment, are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets. Generally buildings and improvements are written off over 40 years; furniture and equipment three to seven years.

The following represents the changes in fixed assets for the year:

	<u>Beginning</u>	<u>Additions</u>	<u>Deletions</u>	<u>End</u>
	<u>of Year</u>			<u>of Year</u>
Land	\$ 402,371	\$	\$	\$ 402,371
Buildings	3,687,825			3,687,825
Furniture & Equipment-Dwellings	180,504			180,504
Furniture & Equipment-Admin	108,984	17,748		126,732
Leasehold Improvements	<u>238,181</u>	<u>161,452</u>		<u>399,633</u>
	\$ 4,617,865	\$ 179,200	\$	\$ 4,797,065
Less Accumulated Depreciation	<u>1,812,608</u>	<u>134,638</u>		<u>1,947,246</u>
	\$ <u>2,805,257</u>	\$ <u>44,562</u>	\$	\$ <u>2,849,819</u>

Note 4: Pension Plan and Retiree Health Care

Pension Plan:

The County maintains a single-employer defined benefit pension plan, the Bay County Employees' Retirement System (the Plan), covering substantially all employees of the primary government. The Plan provides retirement, disability, and death benefits to plan members and their beneficiaries.

Retiree Health Care:

The County also sponsors a retiree health care plan through a Voluntary Employees Beneficiary Association (VEBA) trust. The VEBA is a single employer defined benefit public retiree health care plan established effective October 1, 2001. The purpose of the VEBA is to provide medical and health care benefits for the welfare of certain retirees of the County and the spouses and dependents of such retirees who are participants in the Bay County Retirement System. Benefits under the plan are provided pursuant to a group contract issued by Blue Cross Blue Shield of Michigan. The County Board of Commissioners has the authority to establish and amend benefit provisions.

Plan and VEBA assets and statistical information is contained in the County's Comprehensive Annual Financial Report (CAFR).

Note 5: Risk Management

The Department is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Department purchases commercial insurance to cover the risks of these losses. The Department had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 6,772,000
General Liability	2,000,000
Automobile Liability	1,000,000
Worker's Compensation and other riders: minimum coverage's required by the State of Michigan	

Note 6: Segment Information for Enterprise Funds.

The Commission maintains an enterprise fund; segment information for the year ended December 31, 2003, is as follows:

Operating Revenue	\$ 343,355
operating Income or (Loss)	188,880
Non Operating Revenue (Expenses)	
Extraordinary Maintenance	(8,394)
Depreciation Expense	(134,638)
Net Profit (Loss)	45,848
Non Current Assets (net)	2,849,819
Total Assets	3,188,279
Unrestricted Net Assets	240,182

Note 7: Reclassifications.

Certain prior years' balances have been reclassified to conform to the current year's presentation.

Note 8: Combining Financial Data Schedules.

The totals in the combining Balance Sheet and combining Income Statement represent unconsolidated totals. Under principals of consolidation, inter fund transactions would be eliminated; the totals in the combined statements follow the financial data schedule format recommended by the U.S. Department of Housing and Urban Development's Real Estate Assessment Center (REAC).

The prior audit of the Bay County Housing Department for the period ended December 31, 2002, contained no audit findings.

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Direct Programs:

	<u>Annual Program Expenditures</u>
* <u>CFDA 14.850 Public and Indian Housing</u>	
C-3220 Operating Subsidies	\$ <u>181,903</u>
 <u>CFDA 14.872 Capital Fund Project</u>	
C-3220 Capital Fund Projects	\$ <u>161,452</u>
	\$ <u>343,355</u>

*Connotes Major Program Category

Significant Account Policies

The accounting policies of the Housing Department conform to generally accepted accounting principles as applicable to governmental proprietary funds. The financial statements contained in the Commission's annual audit report are prepared on the accrual basis of accounting; revenues are recognized when earned, expenses are recorded when the related services or product are received.

Risk management

The Housing Department is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 6,772,000
General Liability	2,000,000
Automobile Liability	1,000,000
Worker's Compensation and other riders: minimum coverage's required by the State of Michigan	

December 31, 2003

Compliance

I have audited the compliance of Bay County Housing Department with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2003. Bay County Housing Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Bay County Housing Department's management. My responsibility is to express an opinion on Bay County Housing Department's compliance based on my audit.

I conducted my audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Bay County Housing Department's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of Bay County Housing Department's compliance with those requirements.

As described in the following findings in the accompanying schedule of findings and questioned costs, the Department failed to comply with one or more of the following compliance requirements: Activities allowed or unallowed, Allowable Costs/cost Principles, Cash Management, Davis-Bacon Act, Eligibility, Procurement, Reporting, or other compliance matters. Compliance with such requirements is necessary, in my opinion, for the Department to comply with the requirements applicable to that program. The following programs, findings and compliance matters are detailed in the schedule of findings and questioned cost:

Low Rent Public Housing:

<u>Finding</u>	<u>Audit Number</u>	<u>Compliance Requirements</u>
Tenant Accounting Discrepancies	03-1	Cash Management, Program Income
Entity Questions	03-2	None
Insufficient Documentation	03-3	Procurement
Physical Inventory Incomplete	03-4	Equipment and Real Property Management
Untimely Deposits	03-5	Cash Management, Program Income
Davis Bacon Act Violations	03-6	Davis Bacon Act

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In my opinion, except for the noncompliance described in the preceding paragraph, the Department complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2003.

Internal Control over Compliance

The management of Bay County Housing Department entity is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered Bay County Housing Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

I noted certain matters involving the internal control over compliance and its operation that I considered to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgement, could adversely affect the Department's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as referred to above.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe that none of the reportable conditions described above is a material weakness.

This report is intended for the information of management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountant

June 3, 2004

Government Auditing Standards
December 31, 2003

I have audited the financial statements of Bay County Housing Department, Bay County, Michigan, as of and for the year ended December 31, 2003, and have issued my report thereon dated June 3, 2004. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Bay County Housing Department's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards; see the findings and questioned cost section of this audit report.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Bay County Housing Department's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I did not note instances which may be considered weaknesses that are required to be reported under Government Auditing Standards.

This report is intended for the information of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Certified Public Accountant

June 3, 2004

Summary of Auditor's Results:

Programs:

	<u>Major Program</u>	<u>Non Major Program</u>
Low income Public Housing	X	
Capital Fund Programs		X

Opinions:

General Purpose Financial Statements-

Unqualified

Material weakness(es) noted _____ Yes X No

Reportable condition(s) noted _____ Yes X No

Non Compliance material to financial statements noted _____ Yes X No

Report on compliance for Federal programs-

Qualified

Material weakness(es) noted _____ Yes X No

Reportable condition(s) noted X Yes _____ No

Non Compliance material to financial statements noted _____ Yes X No

Thresholds:

Dollar limit used to determine type A & B programs- \$ 300,000

The Auditee did not qualify as a low risk auditee.

<u>Name of Federal Program</u>	<u>Major Program</u>	<u>Questioned Costs</u>	<u>Audit Finding Number</u>
Low Rent Program	Yes	None	03-1, 03-2, 03-3, 03-4 03-5, 03-6
Capital Fund Program	No	None	N/A

The following findings of the Bay County Housing Department, for the year ended December 31, 2003, were discussed with the County Executive, Mr. Thomas Hickner, in an exit interview conducted June 3, 2004.

Finding 03-1:

Tenant Accounting Discrepancies.

Out of 12 files tested the following discrepancies were discovered:

- 10 files did not include a rent election form
- 3 files did not contain a signed lease
- 5 files lacked sufficient third party income verification
- 3 files used the wrong social security income
- 2 files lacked sufficient documentation of medical deductions

Recommendation

The annual contributions contract and HUD notices specify the rules for tenant leasing and continued occupancy; the above discrepancies indicate a breakdown in the internal control over tenant accounting. In the past year the Department has had some staff changes, however the errors may indicate other problems with management oversight or staff training.

I recommend the Department review the process of tenant leasing and occupancy to insure the existing staff are properly supervised and trained, and correct the above deficiencies.

Reply

The Department agrees with the contents of this finding that the former Commission's Executive Director failed to follow appropriate file maintenance procedures. Action has already been initiated to ensure that the discrepancies identified above are remedied. In addition, the Department will review its existing policies and procedures related to tenant accounting/compliance with rules for tenant leasing and continued occupancy and will implement whatever changes are necessary to ensure that similar discrepancies do not occur in the future.

Finding 03-2:

Entity Questions.

The Bay County Housing Department operated as a Commission for the first

eleven months of the year; while a Commission, the Commissioners were also Bay County Commissioners, HUD questioned this arrangement due to incompatibility of office as defined in Michigan Law (Public Act 566 of 1978).

As a result, the County dissolved the Commission and implemented the unified form of county government under Public Act 139 of 1973; the organization became a Department of the County.

On March 3, 2004, Bay County was sued. The plaintiffs brought a whistleblower claim against Bay County requesting a declaratory judgement asking that the Bay County Housing Commission be reconstituted including a resident commissioner. This case is in United States District Court.

Recommendation

The court will render a declaratory judgement as to the legality of the organizational format of Center Ridge Arms sometime in the coming months, as well as dealing with the whistle blower counts.

I recommend that the judgement be relied upon and that the mission of the organization be continued; to provide safe, sanitary and decent housing for the low and moderately low elderly residents at Center Ridge Arms.

Reply

Bay County and the former Bay County Housing Commission will defend against the prior director's whistleblower claims. This will follow the usual legal process, reaching resolution through the court system.

The United States District Court will issue a declaratory judgement as to the organization of Center Ridge Arms. The County believes that the Bay County Housing Department is legally constituted. Should the United States District Court hold that the law requires some other form of organization of this valuable housing facility, the County will promptly comply and will take whatever steps are necessary to fully implement the Court's decision.

Finding 03-3:

Insufficient Documentation.

8 of 40 cash disbursements tested lacked proper documentation. The disbursements

consisted of routine monthly expenses, petty cash reimbursements, and supplies purchased. The disbursements were authorized by the director and approved by the board of commissioners; however, once filed did not contain proper documentation or evidence to support the claim.

Recommendation

Although the dollar amount involved would be immaterial if each disbursement were considered separately, the process needs to be reviewed. Proper authorization by the director, board, or purchasing department requires sufficient documentation to determine if the claim is appropriate, reasonable, and necessary.

I recommend the Department implement internal controls to insure all disbursements are properly documented and approved.

Reply

The Department agrees with the contents of this finding that the former Commission's Executive Director did not ensure that all such disbursements are sufficiently documented. Policies and procedures have already been initiated to ensure that cash disbursements have adequate supportive documentation.

Finding 03-4:

Physical Inventory incomplete.

The Department failed to take a physical inventory of non expendable equipment

for the year ended December 31, 2003.

Recommendation

HUD requires a physical inventory be taken annually of all non expendable equipment and reconciled to the general ledger. The internal control over non expendable equipment is an important part of safeguarding assets; compliance with HUD requirements is mandatory.

I recommend the Department complete an inventory of non expendable equipment and reconcile the results to the general ledger.

Reply

The Department agrees with the contents of this finding that the former Commission's Executive Director failed to complete an annual physical inventory of non expendable equipment. Policies and procedures have already been adopted to ensure that a physical inventory of non expendable equipment is performed as of December 31, 2004 and the results of the count are reconciled to the Department's general ledger.

Finding 03-5:

Untimely Deposits.

For the first several months of the year, deposits were being made at least weekly; the last three months of the year deposits were being made once a month.

Recommendation

The Department does not accept cash payments as a rule, nonetheless, deposits should not be held until mid month before being deposited. The only explanation offered for the change in policy was convenience; I recommend the Department go back to the previous practice of deposits at least weekly if not more often in peak periods. Holding checks and money orders can present other problems such as loss or theft; in addition, the posting of the payments to the tenant accounts was also delayed until mid month. Such a practice makes timely collections impossible since the payments are not recognized in the system until after the late collection period has already past. Further, over time such a practice would cost the Department a loss of earnings since the deposits are not earning interest while being held.

I recommend the collections be receipted when paid, posted to the tenants account, and deposited in a relatively short period of time.

Reply

The Department agrees with the contents of this finding that the former Commission's Executive Director did not ensure timely deposits. cash receipts are now deposited and tenant accounts are updated on at least a weekly basis.

Finding 03-6:

Davis Bacon Act Violations:

The Department is required to follow the Davis Bacon Act in all construction contracts that exceed \$ 2,000. The Department did specify the prevailing wages

and received certified payrolls from the contractors, however, did not conduct employee interviews to determine if the prevailing wages were being paid.

Recommendation

HUD has determined that monitoring contractor employee wages is one way to insure contractors are paying their employees the prevailing wage rate. In order to monitor contractor wages, HUD requires interviews be conducted periodically and compared to the certified payrolls provided by the contractor. The interviews of contractor employees questions the rate, hours, and job classification of the employee.

I recommend the Department assign personnel to the process of monitoring Davis Bacon requirements as required by HUD, and conduct employee interviews.

Reply

The former Commission apparently was unaware of HUD's requirement to conduct interviews with contractor employees that work on projects subject to the Davis Bacon Act. In any future construction contracts, the Department will comply with all HUD provisions that specifically require the employee interviews and implement whatever policies and procedures are necessary to ensure compliance with these provisions.